APPENDIX 3

PACIFIC BELL
EXOGENOUS COSTS BY BASKET
($ MILLIONS)

| | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|
| Common line | 13.1 | 12.8 | 12.7 | 12.5 |
| Traffic sensitive | 8.3 | 8.2 | 8.1 | 8.0 |
| Special access | 4.0 | 3.9 | 3.8 | 3.8 |
| Interexchange | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 25.4 | 24.9 | 24.6 | 24.3 |

Appendix 3

SFAS-106 Cost Allocations to Price Caps Basket

Part B

Nevada Bell

NEVADA BELL

Allocation of costs to baskets by year (000)

Appendix 3

| | Dist (1) | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Total Rev. Req. Effect | | 1118 | 1056 | 1005 | 949 |
| GNP-PI Effect (4.8%) | | -54 | -51 | -48 | -46 |
| Total IS Exog. Cost | | 1064 | 1005 | 957 | 904 |
| Less B&C | 5.94% | 63 | 60 | 57 | 54 |
| Total Access Exog. Cost | | 1001 | 945 | 900 | 850 |
| Allocations by basket: | | | | | |
| Common Line | 36.68% | 390 | 369 | 351 | 331 |
| Traffic Sensitive | 48.65% | 518 | 489 | 465 | 440 |
| Special Access | 8.55% | 91 | 86 | 82 | 77 |
| Interexchange | 0.00% | 0 | 0 | 0 | 0 |

Note 1: The allocations for 93-94 are calculated using Part 69.
The 1991 Base year adjusted for 92/93 SPF and DEM specifically.

Appendix 4

Excerpts from Pacific Bell's 10K Report

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the Fiscal Year Ended December 31, 1991**

or

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-1414

# PACIFIC BELL

A California Corporation I.R.S. Employer Number 94-0745535
140 New Montgomery Street, San Francisco, California 94105
Telephone - Area Code (415) 542-9000

Securities registered pursuant to Section 12(b) of the Act:
See attached Schedule A.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No __.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. | X |

THE REGISTRANT, A WHOLLY OWNED SUBSIDIARY OF PACIFIC TELESIS GROUP, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J (1) (a) and (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

## C. EMPLOYEE RETIREMENT PLANS (continued)

Additionally during 1990, the Company amended certain of its pension plans to increase benefits for specified groups of employees who elect early retirement. During 1990, approximately 1,800 employees elected early retirement under these amendments.

The Company has entered into labor negotiations with union-represented employees in the past and expects to do so in the future. Pension benefits have been included in these negotiations, and improvements in benefits have been made periodically. Additionally, the Company has increased benefits to pensioners on an ad hoc basis. While no assurance can be offered with respect to future increases, the Company's expectations for future benefit increases have been reflected in determining pension costs.

### Defined Contribution Plans

The Company also participates in certain Pacific Telesis Group-sponsored defined contribution retirement plans that cover substantially all of the Company's employees. These include the Pacific Telesis Group Supplemental Retirement and Savings Plan for Salaried Employees and the Pacific Telesis Group Supplemental Retirement and Savings Plan for Nonsalaried Employees (collectively, the "Savings Plans"). The Company's contributions to the Savings Plans are based on matching a portion of eligible employee contributions.

During 1989, the Savings Plans were amended to require that, effective March 1, 1990, all matching employer contributions will be made through a leveraged employee stock ownership ("ESOP") trust. Total Company contributions to these plans including contributions allocated to participant accounts through the leveraged ESOP trust were $66 million, $66 million and $64 million in 1991, 1990, and 1989 respectively.

## D. POSTRETIREMENT HEALTH AND LIFE INSURANCE BENEFITS

The Company provides health care benefits for retired employees and their eligible dependents and provides life insurance benefits for retired employees. At December 31, 1991, approximately 40,000 retirees were eligible to receive these benefits. Employees become eligible upon retirement with eligibility for a service pension. The Company retains the right, subject to applicable legal requirements, to amend or terminate these benefits.

Postretirement health care costs are expensed as claims are incurred. Postretirement life insurance benefits are expensed on an advance-funded basis for retirees and certain active employees. The costs of these benefits recognized in 1991, 1990, and 1989 were $107 million, $103 million, and $100 million, respectively. During 1990 and 1989, the Company contributed $134 million and $136 million, respectively, to a bargained Voluntary Employees' Beneficiary Association ("VEBA") trust to prefund postretirement health and welfare benefits for certain active and retired employees.

## OTHER CONTINUING MATTERS

### Postretirement Benefits Other Than Pensions

In December 1990, the FASB issued Statement of Financial Accounting Standard No. 106 ("SFAS 106"), "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Company currently offers postretirement benefits other than pensions ("postretirement benefits") which are primarily retiree health-care and life insurance benefits.

SFAS 106 requires that we change the method of accounting for these post-retirement benefits from cash basis to accrual basis beginning in 1993. We expect our unrecognized liability, the transition obligation, to be approximately $2.5 billion. The increase in annual cost is estimated to be approximately $220 million in the year of adoption, but the effects on net income and the balance sheet are dependent on the specific ratemaking treatment ordered by our state and federal regulators. The Company cannot predict the ratemaking treatment at this time.

In 1990, the CPUC instituted a two-phase investigation into implementation of SFAS 106. Consideration of rate recovery for prefunding of the postretirement benefit obligation was deferred by the CPUC to Phase II. In addition to the prefunding issue, Phase II hearings will consider the full impact of SFAS 106 on ratemaking, including the extent to which recovery of the increased cost is appropriate under price cap regulation.

In a December 1991 order, the FCC allowed exchange carriers to adopt SFAS 106 for accounting purposes. The order requires the transition obligation to be amortized over 20 years. We expect the FCC will address ratemaking treatment for the increased costs of these postretirement benefits in 1992.

### 1992 Annual Price Cap Filing

In December 1991, the CPUC ordered us to reduce annual rates by about $132 million beginning in 1992. This revenue reduction will be substantially offset by decreases in expenses of about $100 million, primarily in depreciation expense.

### Audit of Joint Ventures, Strategic Alliances, and Research and Development Projects

In December 1987, the CPUC authorized an examination of our joint ventures, strategic alliances, and research and development projects. In February 1992, the Company and the CPUC's Division of Ratepayer Advocates (the "DRA") jointly filed a settlement agreement. Subject to CPUC approval, we would reduce rates by about $19 million annually retroactive to January 1990. It is anticipated that future revenues will be reduced to reflect a final settlement agreement. The proposed settlement also deferred an issue for further proceedings which could result in an additional one-time refund of about $21 million. We are unable to predict the outcome of this matter.

Appendix 5

FAS-106-Type Costs - Current Accounting

Part A

Pacific Bell

# PACIFIC BELL
# OPEB COSTS -- CURRENT FCC ACCOUNTING
# 1991 AND PROJECTED 1992 EXPENSES
# TOTAL OPERATIONS

## Dollars In Millions*

| | 1991 | 1992 Estimated |
|---|---|---|
| 1) Medical & Dental Claims Paid By Company | 51.3 | 62.2 |
| 2) Medical & Dental Claims Paid By VEBA Trust | 49.3 | 53.8 |
| 3) Total Medical & Claims (L1 + L2) | 100.6 | 116.1 |
| 4) Group Life Insurance | 3.6 | 3.5 |
| 5) Total Pay-As-You-Go# (L3 + L4) | 104.2 | 119.5 |
| 6) Incremental VEBA Expense | 77.1 | 72.5 |
| 7) Total Current Accounting (L5 + L6) | 181.3 | 192.1 |

* Amounts may not add down due to rounding.

\# Group Life Insurance costs reflect contributions made to a life insurance trust.

Appendix 5

FAS-106-Type Costs - Current Accounting

Part B

Nevada Bell

PAY-AS-YOU-GO/NEVADA
ACCOUNT 6728-143
SUMMARY CENTER 6

| | 1991 | 1992(YTD APRIL) | |
|---|---|---|---|
| MR AMOUNT | $2,309,123 | $643,430 | ACCOUNT 6728-143 |
| LESS VEBA PAYMENT | $971,500 | $229,000 | RETIREE VEBA |
| COMPANY PAYMENT | $1,337,623 | $414,430 | |
| ANNUALIZED | | 3 | |
| TOTAL NB PAYOUT | $1,337,623 | $1,243,290 | |
| VEBA PAYOUT | | | |
| JANUARY | $163,544 | $44,415 | FROM TRUST FUND |
| FEBRUARY | $66,520 | $56,404 | |
| MARCH | $130,345 | $69,984 | |
| APRIL(1992 EST) | $51,757 | $60,000 | 1992 ESTIMATED |
| MAY | $57,981 | | |
| JUNE | $106,935 | | |
| JULY | $86,034 | | |
| AUGUST | $65,457 | | |
| SEPTEMBER | $55,890 | | |
| OCTOBER | $141,546 | | |
| NOVEMBER | $53,484 | | |
| DECCEMBER | $85,080 | | |
| TOTAL | $1,064,573 | $230,803 | |
| ANNUALIZED | | $692,409 | |
| TOTAL HEALTH | $2,402,196 | $645,233 | |
| LIFE(EST) | $300,000 | $100,000 | EST. FROM 1993-1996 DATA |
| TOTAL PAY-AS-YOU-GO | $2,702,196 | $745,233 | |
| 1992 ANNUALIZED | | $2,235,699 | TOTAL BENEFITS PAID |
| VEBA CONTRIBUTION | | | |
| | HALF OF 1991 | HALF OF 1991 | |
| CURRENT RETIREE | | | |
| -MEDICAL | $313,000 | $313,000 | |
| -DENTAL | $30,500 | $30,500 | |
| TOTAL | $343,500 | $343,500 | 1991 CONTRIBUTION $2,535,000 |
| PREFUNDING | | | |
| -MEDICAL | $816,000 | $816,000 | |
| -DENTAL | $108,000 | $108,000 | |
| TOTAL | $924,000 | $924,000 | |
| | HALF OF 1990 | HALF OF 1992 | |
| CURRENT RETIREE | | | |
| -MEDICAL | $587,500 | $313,000 | |
| -DENTAL | $40,500 | $30,500 | |
| TOTAL | $628,000 | $343,500 | |
| PREFUNDING | | | 1992 EST. CONTRIBUTION $2,535,000 |
| -MEDICAL | $453,500 | $816,000 | |
| -DENTAL | $75,500 | $108,000 | 1990 CONTRIBUTION $2,314,000 |
| TOTAL | $529,000 | $924,000 | |
| VEBA EXPESE | $2,424,500 | $2,535,000 | |
| MGT PAY/GO | $1,337,623 | $1,243,290 | |
| ALLOWABLE HEALTH | $3,762,123 | $3,778,290 | |
| LIFE INSURANCE | $54,838 | $50,000 | 1992 ESTIMATED |
| TOTAL COST | $3,816,961 | $3,828,290 | INCLUDED IN NEVADA RESULTS |

Appendix 6

SFAS-106 Type Costs in Price Caps Rates

Part A

Pacific Bell

APPENDIX 6

PACIFIC BELL
SFAS 106 COSTS UNDERLYING
INITIAL PRICE CAP RATES
($ MILLIONS)

| | Interstate | Common Line | Traffic Sens. | Spec. Access |
|---|---|---|---|---|
| Funded VEBA * | 25.3 | 12.6 | 7.2 | 3.5 |
| Pay-as-you-go expenses ** | 8.7 | 4.3 | 2.7 | 1.2 |
| Total FAS 106 expenses in 7/1/90 rates *** | 34.0 | 16.9 | 9.9 | 4.8 |

* Amount authorized per 6/21/90 MEMORANDUM AND ORDER, re CC Docket 90-320, in the matter of the 1990 Annual Access Filings.

** Non-bargained claims and accrued group life insurance.

*** Starting point for Price Cap regulation.

Appendix 6

SFAS-106 Type Costs in Price Caps Rates

Part B

Nevada Bell

NEVADA BELL

Appendix 6

Type and level of SFAS 106 expense reflected in the starting rates of Price Caps

| | Subj. to Seps | Inter-state | Common Line | Traffic Sens. | Spec. Access |
|---|---|---|---|---|---|
| Funded VEBA (1) | 2486 | 865 | 368 | 414 | 65 |
| Pay-as-you-go exp (1,2) | 956 | 333 | 141 | 159 | 25 |
| Total FAS 106 expenses in 7/1/90 rates | 3442 | 1198 | 509 | 573 | 91 |

Note 1: Used Big 3 to approximate distribution to baskets
Note 2: Used Big 3 expense distribution to approximate distribution to baskets.
Expense level approximated using 1990 PTG totals x 2% x % reg

# Appendix 7

## Actuarial Report - Pacific Telesis Group
## Post-Retirement Benefits

# ACTUARIAL REPORT

## PACIFIC TELESIS GROUP POST-RETIREMENT BENEFITS

## OTHER THAN PENSIONS - MEDICAL/DENTAL/GROUP TERM LIFE INSURANCE

## ACTUARIAL VALUATION PROJECTED TO 1993

# ACTUARIAL PROJECTION

## FOR THE PACIFIC TELESIS GROUP
## POST-RETIREMENT MEDICAL, DENTAL AND GROUP TERM LIFE INSURANCE PLANS

## 1993

This report covers both the funding and accounting requirements for the 1993 plan year.

The amounts presented in this report have been prepared in accordance with generally accepted actuarial principles and practices and reflect the law, regulations issued to date, and the requirements of Financial Accounting Standards No. 106 (FAS106).

Calculations are based on personnel and asset information supplied by the Corporation and the actuarial methods and assumptions described in this report. Further, the effects of the management in-force reduction and no Bargained VEBA contributions for years 1991 and 1992 are reflected in this report. The FAS106 Transition Obligation is amortized over 15 years, the average remaining service period for active participants. Allocation factors of 96% and 2% are used to determine the proportion of VEBA Contribution and FAS106 Expense for Pacific Bell and Nevada Bell, respectively. These actuarial allocations are necessary since VEBA assets are not maintained separately by Company. Derivation of these factors are summarized in the Appendix.

Users of this report should recognize that the report was developed to produce the required disclosures under FAS106 and to determine tax deductions under the Internal Revenue Code. Accordingly, appropriate adjustments may be needed if this information is used for any other purpose.

G. S. Schlappich
Associate, Society of Actuaries

May, 1992

NEVADA BELL
OPEB--CURRENT ACCOUNTING
1991 AND PROJECTED 1992
TOTAL COST

| | 1991 | 1992 estimated |
|---|---|---|
| Medical and Dental Claims Paid by Company | $1,337,623 | $1,243,290 |
| Medical and Dental Claims paid by VEBA | $1,064,573 | $692,409 |
| Total Medical and Dental Claim Payment | $2,402,196 | $1,935,699 |
| Life Insurance Funding | $54,838 | $50,000 |
| Total Pay-As-You-Go | $2,457,034 | $1,985,699 |
| Incremental VEBA expense | $1,359,927 | $1,842,591 |
| Total Current Accounting | $3,816,961 | $3,828,290 |

# TABLE OF CONTENTS

# SECTION ONE

# MANAGEMENT SUMMARY

## SECTION ONE - MANAGEMENT SUMMARY

A. 1993 Costs (All Dollar Amounts in Thousands)

Funding:

VEBA Contribution (12/31):

| | | All PTG | Pacific Bell | Nevada Bell | Other Subsidiaries |
|---|---|---|---|---|---|
| Medical/Dental Bargained | - | $184,651 | $177,265 | $3,693 | $3,693 |
| Medical/Dental Non-Bargained | - | 107,632 | 103,327 | 2,153 | 2,152 |
| Group Life | - | 3,341 | 3,207 | 67 | 67 |
| Total | - | 295,624 | 283,799 | 5,913 | 5,912 |

FAS106 Expense:

| | | | | | |
|---|---|---|---|---|---|
| Medical/Dental | - | 399,226 | 383,257 | 7,985 | 7,984 |
| Group Life | - | 3,279 | 3,148 | 66 | 65 |
| Total | - | 402,505 | 386,405 | 8,051 | 8,049 |

These results are based on 12/31/89 data, projected to 1993.

B. Funding Background

1. Legal Requirements

Cash contributions to the VEBAs must meet the legal funding requirements described in Section 419 of the Internal Revenue Code.

To meet these requirements, they must be based on:

- o An actuarial cost method which spreads costs between years in an acceptable manner, and
- o Actuarial assumptions that are each reasonable "taking into account experience under the Plan and reasonable expectations".

2. Actuarial Methods and Assumptions

The Individual Level Premium Actuarial Cost Method is used to calculate the medical/dental VEBA contributions. The Aggregate Actuarial Cost Method is used to calculate the Group Life VEBA Contribution. These methods are acceptable for funding purposes and spread the present value of benefits over the working lives of covered employees. Bargained VEBA contributions reflect no prefunding for years 1991 and 1992.

Actuarial assumptions used to determine contribution levels include:

- o An interest rate to discount future benefit payments and contributions to today's dollars. 8.5% was used for the Bargained tax-exempt VEBA, 5% for the taxable Non-Bargained VEBA, and 8.5% for the Group Life VEBA.
- o The Bargained VEBA calculations use a medical inflation assumption which is 12% graded down to 6% over time for in-network benefits and 14% graded down to 6% over time for out-of-network benefits. No medical inflation is assumed for the Non-Bargained VEBA calculations in accordance with IRS requirements, and
- o Probabilities of retirement (including 1991 management in-force reduction), exit from employment, death, and disablement to predict incidences of future benefit payments and future work force levels based on current data.

The assumptions are illustrated at the end of the Accounting and Funding Requirements Sections.

3. Results

The chart on page 3 shows a comparison between VEBA assets and the FASB accrued liability as of January 1, 1993 for all PTG. Non-Bargained Medical/Dental VEBA assets are $0 until December 31, 1993, the date of the first non-bargained VEBA contribution.

These amounts are composed of the following (in millions of dollars):

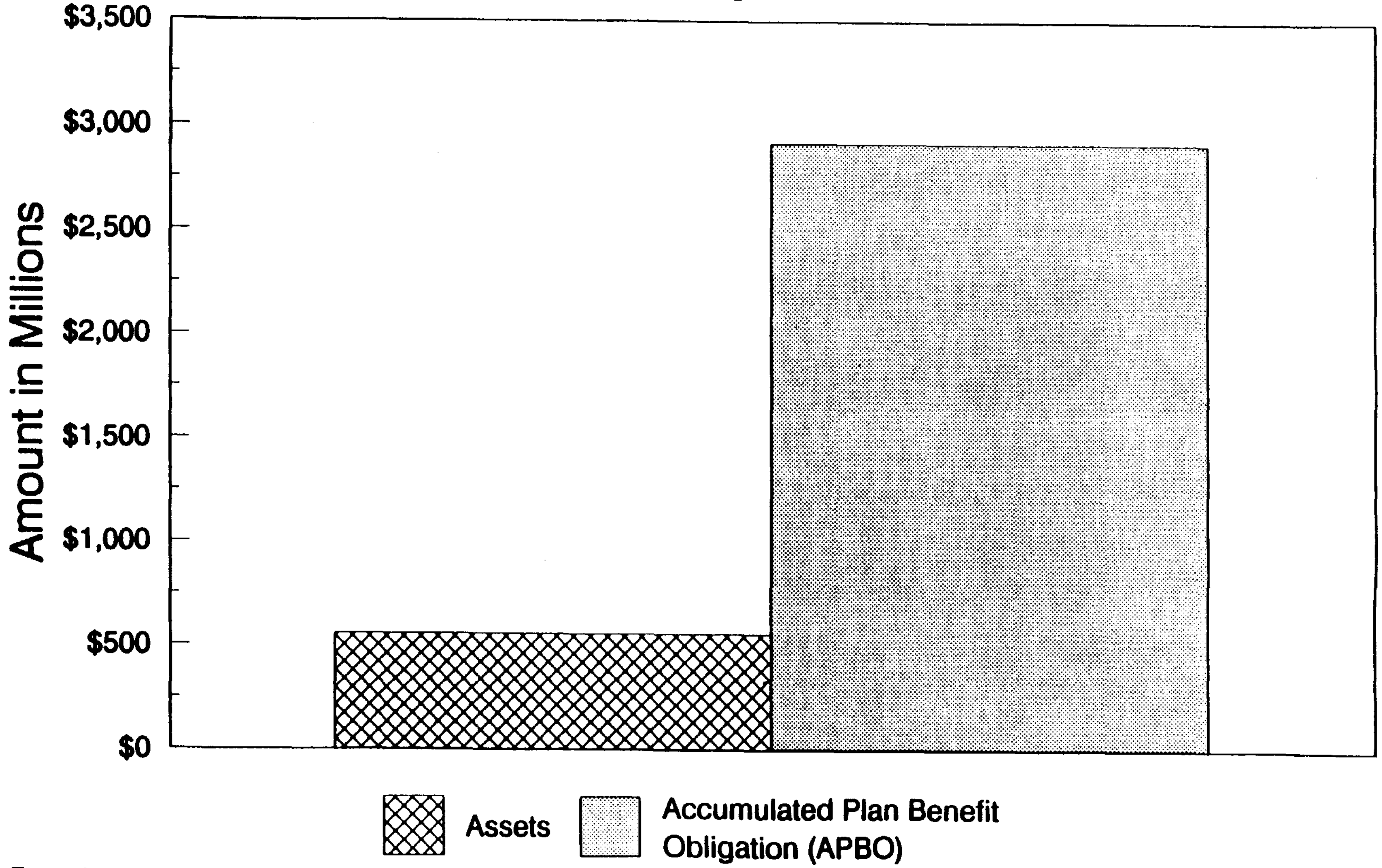
| | | VEBA Assets | FASB Accrued Liability |
|---|---|---|---|
| Medical/Dental | - | $211 | $2,578 |
| Group Life | - | 343 | 336 |
| Total | - | $554 | $2,914 |

C. Expense Background

1. Accounting Requirements

Accounting requirements for post-retirement benefits other than pensions (PBOPs) are set by the Financial Accounting Standards Board in Statement of Financial Accounting Standards Number 106 (FAS106).

## VEBA ASSETS vs FASB ACCRUED LIABILITY
## As of January 1, 1993




Totals for Pacific Telesis Group

2. Actuarial Methods and Assumptions

Calculation of PBOP expense under FAS106 requires different techniques and methods than those used for funding.

The Projected Unit Credit Method is the required actuarial calculation method. This method allocates cost to a given year based on the actuarial present value of the benefits "earned" in that year.

The actuarial assumptions are similar to those used for funding except that two interest rates are used (one to discount future benefit payments to today's dollars based on current economic conditions, and the other to predict long-term rates of return on plan assets). For determining 1993 PBOP expense, an 8.5% interest rate is used to discount benefit payments to today's dollars. For the VEBAs, 8.5% is also used for the long-term rate of return on plan assets. For in-network medical trend, 12% graded down to 6% over time was used for both Bargained and Non-Bargained groups (out-of-network medical trend assumed 14% graded down to 6% over time). The other assumptions are described at the end of the Accounting and Funding Requirements Sections.

3. Results

PBOP expense for 1993 calculated in accordance with FAS106 is $403 million for all PTG. The chart on page 6 shows the components used to derive the total PBOP expense in accordance with FAS106.

D. Data

1. Source of Data

Data as of December 31, 1989 was supplied by each of the Corporation's subsidiaries covered by the Plans. Data for employees included birthdate, net credited service date, sex, and compensation information. Data for retirees included birthdate, sex, and type/amount/optional form of benefit, as well as beneficiary birthdate and relationship.

2. Testing of Data

Data was tested for reasonability and internal consistency.